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<u>Yugoslav Economic Problems: Illiquidity</u>

The Yugoslav leadership is wrestling with economic problems which could create serious political problems early next year. Since late 1971, the country has been faced with a serious "illiquidity" or "business insolvency" problem. At the risk of oversimplifactions, this means that a significant number of enterprises do not have a sufficient inflow of cash to pay their creditors (who in turn cannot pay their creditors, etc.). Another result has been an increasing tendency to delay wage payments to workers.

Legislation to combat this problem has been passed, but it will not be fully implemented until early January, when it may lead to labor unrest. After 1 January, all firms, which have not paid bills more than 90 days old must, within one month, make arrangements to pay their creditors. Failing

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this, they are subject to court-ordered involuntary settlement, including bankruptcy proceedings. Furthermore, any firm violating the 90-day rule must limit wage and salary payments to 90% of the average per capita wages paid in the previous year. According to the Yugoslav press, these laws could affect more than one million workers. In Serbia, for example, nearly half a million workers could be put on 90% pay, while the American consul in Zagreb estimates that the impact in Croatia would be even wider. In contrast to their brothers in Serbia and Croatia, workers in Slovenia would escape relatively unscathed. However, in the Kosovo, the country's poorest region, nearly one-half of those employed can expect to receive reduced wages.

Authorities already are trying to find ways to cushion the impact of these draconian laws. To minimize the pain, the Federal Executive Council on 11 December ordered a freeze on all salaries in the "non-economic sector" (schools, government, social services). The government also will seek to delay implementing the law for six months in such vital sectors as the railroad industry, power industry and mines producing coal for thermal power plants. Special revisions are also being discussed which would allow factory labor forces to use various funds at their disposal to make up the missing wages.

Party leaders also have indicated that they view the economic problems seriously and intend to take strong action. In Tito's September letter, he stressed the need to put a stop to the bad business habits which have lead to the illiquidity problem. Milka Planinc, party leader in Croatia, has reitereated Tito's remarks. There, nonetheless, have been few reports of businesses settling their accounts voluntarily in Croatia. Moreover, few business leaders in Zagreb believe that there can be full implementation of the laws.

Both party and government leaders thus are caught in a dilemma. If they don't act decisively, the economic problems will continue and possibly get worse. If they act too decisively, they face the possibility of strikes and demonstrations. A middle of the road policy could also be dangerous since the Yugoslavs could end up with the worst of both worlds. As a result, enforcement of the new laws probably will be selective--it will be aimed at doing away with the most flagrant violations, and heading off increased salary demands by the self-managing units. With inflation running around 16% per annum, even this warning may go unheeded. 25X1